

ALASKA PROGRESS & REGULATORY REFORM HIGHLIGHTS

Winter NAPE Business Conference

Wednesday, February 6, 2013
Houston, TX

Dan Sullivan, Commissioner
Alaska Department of Natural Resources



OUTLINE



PART I: Overview of Alaska

PART II: Recent Activity

PART III: Progress on Commercializing North Slope Gas

PART IV: Moving Forward in 2013

PART I



Overview of Alaska

STATE of ALASKA

- LAND BASE -



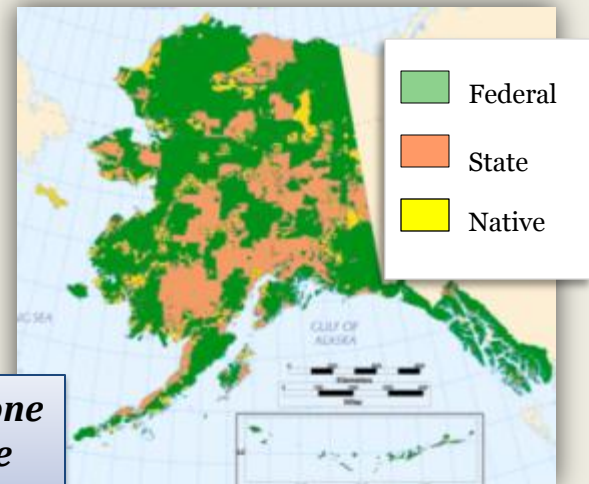
Land Base

- 586,412 square miles—more than twice the size of Texas
- Is larger than all but 18 sovereign nations
- Has more coastline than all other U.S. states combined
- Has more than 3 million lakes and half of the world's glaciers
- Has approximately 40% of the nation's freshwater supply
- Is the least densely populated U.S. state

Land Ownership

- *Federal Land*: more than 200 million acres
- *State Land*: Approx. 100 million acres of uplands, 60 million acres of tidelands, shore lands, and submerged lands, and 40,000 miles of coastline
- *Native Corporation Land*: 44 million acres

The Alaska Department of Natural Resources manages one of the largest portfolios of oil, gas, minerals, renewable resources, water, and land in the world.



STATE *of* ALASKA

- ALASKA AS A STOREHOUSE: OIL & GAS -

North Slope

- USGS estimates that Alaska's North Slope has more oil than any other Arctic nation
 - **OIL:** Est. 40 billion barrels of conventional oil (*USGS & BOEMRE*)
 - **GAS:** Est. over 200 trillion cubic feet of conventional natural gas (*USGS*)
- Alaska has world-class unconventional resources, including tens of billions of barrels of heavy oil, shale oil, and viscous oil, and hundreds of trillions of cubic feet of shale gas, tight gas, and gas hydrates
 - Positive methane hydrate test production

Cook Inlet

USGS estimates that significant undiscovered, technically recoverable oil and gas resources remain to be found in Cook Inlet:

- 19 trillion cubic feet of natural gas
- 600 million barrels of oil
- 46 million barrels of natural gas liquids



Compared to most hydrocarbon basins, Alaska is relatively underexplored, with 500 exploration wells on the North Slope, compared to Wyoming's 19,000.

PART II

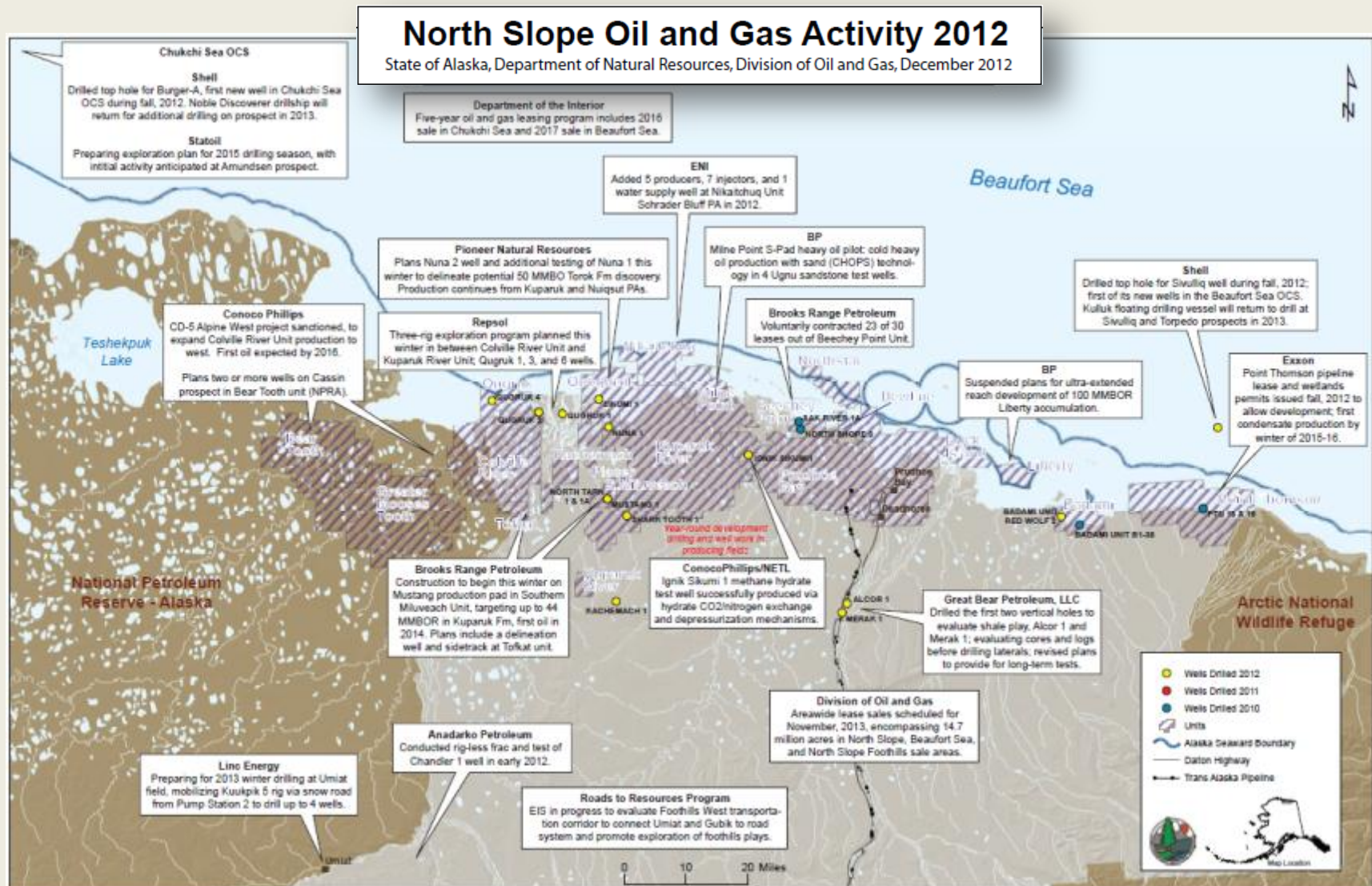


Recent Activity

- North Slope
- Cook Inlet

NORTH SLOPE OIL & GAS ACTIVITY

- RECENT & PROPOSED ACTIVITY -



NORTH SLOPE OIL & GAS ACTIVITY

- NEXT PHASES & NEW AREAS OF EXPLORATION -

- State is investing millions of dollars in infrastructure
- Strong diversity of players, operators and exploration on state and federal land: Shell, Repsol, Brooks Range, Great Bear, Armstrong, Linc, Anadarko, ENI, Pioneer, Savant, Conoco Phillips, Exxon Mobil, BP
- Shell began drilling exploration wells in the Beaufort and Chukchi seas in 2012
- Eastern North Slope open with Exxon's Point Thomson development
- Linc Energy drilling operations at Umiat are moving forward
- Conoco Phillips CD-5 expansion proceedings in NPR-A
- Great Bear, Royale, Haliburton - Shale oil exploration ramping up
- New operators are expanding production outside of existing units, e.g., Oooguruk (Pioneer) and Nikaitchuq (ENI)
- Private equity groups, such as Riverstone, are investing in Alaska
- These developments, while positive, are just scratching the surface of our overall potential



COOK INLET OIL & GAS ACTIVITY

- Combination of very competitive investment incentives and USGS resource report are attracting significant investment
- New players exploring and investing: Apache, Hilcorp, Armstrong, Linc, Buccaneer, Nordaq, Furie, Cook Inlet Energy, ConocoPhillips, CIRI
- Hundreds of millions invested in 2012
- Dramatic increase in number of drill rigs in inlet – either idle, available or stacked
 - November 2006, 9 rigs
 - November 2009, 12 rigs
 - November 2012, 17 rigs (includes 2 jack-up rigs)
- Companies shooting major 3-D seismic over large areas of the basin
 - Never previously done at this scale with this sophisticated technology
 - Presents huge opportunities for development
- New gas storage project on line; important for supply security and more steady year-round production and peak availability
- Attractive price for gas relative to Lower 48 markets
- State continues to focus on safe, responsible development and operations



WSJ Article, August 27, 2011:

"New Energy Estimate Breathes Life Into a Declining Alaskan Oil Field"

COOK INLET OIL & GAS ACTIVITY 2012

Cook Inlet investment surges in 2012

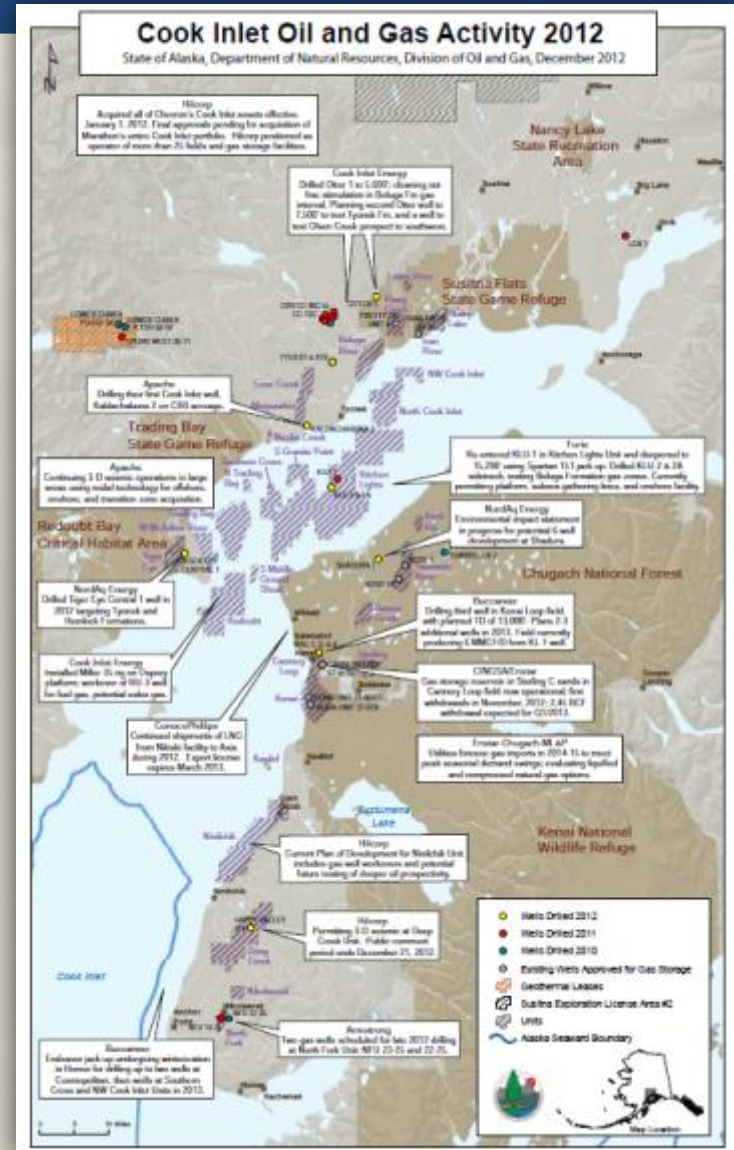
After years of declining investment, several independent, small and large are taking a chance on the scrappy but prolific basin.

By MICHAEL
The month, somewhat by accident, was the month when the industry's attention was focused on the Cook Inlet basin. It was a month when the industry's attention was focused on the Cook Inlet basin. It was a month when the industry's attention was focused on the Cook Inlet basin.

Petroleum News, January 13, 2013:

"Cook Inlet undoubtedly went through a renaissance in 2012.

"While dwindling supplies remain a concern, the year saw companies large and small making significant investments in the basin after years without exploration and only limited development. If the most ambitious companies were successful, the region would see increased oil and gas volumes some 55 years after production began."



STRONG ALASKA LEASE SALES 2011 & 2012

Cook Inlet

- In June 2011, the state received the highest number of Cook Inlet lease sale bids in 28 years, totaling around \$11 million
 - Total tracts sold: 108
 - Total high bonus bids: \$10,986,826.20
- In May 2012, Cook Inlet lease sale bids totaled more than \$6.8 million
 - Total tracts sold: 44
 - Total high bonus bids: \$6,865,835



NS, NS Foothills & Beaufort Sea

- In December 2011, the Division of Oil and Gas received more than 300 bids from more than 15 bidders, totaling more than \$21 million, signifying one of the most successful sales in recent Alaska history
- In November 2012, bids for all areas totaled more than \$14 million with tracts sold in the Foothills area for the first time since 2009
 - Total tracts sold : 122
 - Total high bonus bids: \$14,240,333.73
- State needs billions of dollars in new investment to meet the Governor's one-million-barrels-a-day goal

PART III



Progress on Commercializing North Slope Gas

COMMERCIALIZING NORTH SLOPE GAS

- HUGE GAS RESOURCE BASE -

- The North Slope of Alaska is estimated to have over 200 trillion cubic feet of conventional gas
- Conventional gas is not controversial—unconventional gas in the Lower 48 U.S. states remains controversial
- 35 trillion cubic feet of known reserves
- Prudhoe Bay reinjects 8 billion cubic feet of gas per day, which is enough to meet Canada's daily gas needs
- These numbers do not include the trillions of cubic feet of shale gas, tight gas, and gas hydrates estimated for the North Slope
- This is an almost inexhaustible supply of gas with new technology
- North Slope gas is “wet” gas with a high energy content (BTU value)
- An Alaska LNG project has complete certainty of supply; not all other projects do

COMMERCIALIZING NORTH SLOPE GAS

- 2012 STATE OF THE STATE AND BENCHMARKS-

State of Alaska has made significant progress on commercializing North Slope Gas:

- Much of the upstream infrastructure is in place
- There is a renewed focus from key stakeholders on monetizing the massive reserves of North Slope gas
- Hundreds of millions of dollars have been spent on critical engineering and environmental regulatory and commercial work required for a gas project

Governor's Roadmap to Gasline

1. Resolve Point Thomson
2. Align during the first quarter of 2012
3. Two state-backed projects—under the Alaska Pipeline Project and Alaska Gasline Development Corporation—work to consolidate efforts by third quarter of 2012
4. Harden numbers on an Alaska LNG project by the third quarter of 2012, and identify a pipeline project and associated work schedule
5. If milestones are met, the 2013 Legislature takes up gas tax legislation designed to move the project forward

COMMERCIALIZING NORTH SLOPE GAS

- SIGNIFICANT PROGRESS -

Critical 2012 developments:

Producer alignment on an Alaska pipeline to tidewater

- ExxonMobil, ConocoPhillips, BP, and TransCanada are now formally aligned and are undertaking work together on the commercialization of North Slope gas with a specific focus on a large scale LNG project from southcentral Alaska
- Until just recently, these three companies pursued different directions on Alaska's gas
- The parties have signed formalized agreements to work together on evaluating the feasibility of LNG from southcentral Alaska

Development of Multi-Billion Dollar Point Thomson Field

- Pt. Thomson holds approximately 8 tcf of known gas reserves, plus hundreds of millions of barrels of liquid condensates and oil
- Winter construction season underway
- Significant hydrocarbon production online within three years

WSJ: Alaska, Gas Firms Clear Way For Pipeline

Point Thomson settlement "...paves the way for a pipeline project to ship natural gas from the North Slope, unleashing the state's massive gas reserves." - WSJ, 3/30/12

FT: Oil Groups Agree on \$40bn Alaska Gas Project

"ExxonMobil, BP and ConocoPhillips have reached agreement with the state of Alaska to take a significant step forward on a \$40bn-plus project to export liquefied natural gas to Asia, resolving a long-running lease dispute that had been holding up progress."

"In a joint letter, the chief executives of the three companies said they were 'aligned' on a plan to develop the huge gas reserves of Alaska's North Slope, which until now have been stranded without a route to market." - Financial Times, 3/30/12

COMMERCIALIZING NORTH SLOPE GAS

- SIGNIFICANT PROGRESS -

ExxonMobil

ConocoPhillips



March 30, 2012

Governor Sean Parnell
550 West 7th Avenue, Suite 1700
Anchorage, Alaska 99501

Dear Governor Parnell,

Our three corporations, collectively and individually, value our relationship with Alaska and believe that its citizens across the state, as well as our shareholders around the world, share a common interest in responsible resource development. We write today to inform you of our progress in working together on the next generation of North Slope resource development.

Alaska's vast North Slope holds over 35 trillion cubic feet of discovered natural gas. To date, this gas has been used to enhance North Slope oil production, adding several billion barrels to Prudhoe and Kuparuk recoveries. However, under the right business climate, the full commercial potential of this world-class resource can be unlocked. North Slope gas commercialization will bring new job opportunities, increased state revenues, reliable in-state energy supplies and new exploration opportunities, which will enhance Alaska's economy. North Slope oil and gas. This will be key toward reaching your goal of 1 million barrels per day through the Trans-Alaska Pipeline System.

Serious discussions between our companies have taken place along with the Alaska Pipeline Project (APP) parties who are supporting the AGIA License. We have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework. As a result of the rapidly evolving global market, large-scale liquefied natural gas (LNG) exports from south-central Alaska will be assessed as an alternative to gas line exports through Alberta. In addition to broadening market access, a south-central Alaska LNG approach could more closely align with in-state energy demand and needs. We are now working together on the gas commercialization project concept selection, which would include an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others.

Commercializing Alaska natural gas resources will not be easy. Unprecedented issues that must be resolved, and we cannot do it alone. Unprecedented capital for gas development will require competitive and stable financing in Alaska first be established. Appropriately structured, stable financing will create new opportunities around the world, and will play a pivotal role in making Alaska competitive in the global market and unlocking the economic potential of North Slope resources.

Point Thomson is an excellent example of a challenged, world-class resource. With approximately 25% of known North Slope natural gas, Point Thomson development is an important element in consideration of North Slope gas commercialization. However, economic models must span decades into an uncertain future to estimate economic returns. Your Administration has taken the lead in forging a Point Thomson settlement that will bring long-term resources, revenues and jobs to help Alaska's economy. With settlement now finalized, our companies are moving forward, as participating co-venturers, with the initial development phase at Point Thomson with confidence that North Slope gas development will ultimately bring the Point Thomson resource to market.

We agree the next generation of North Slope resource development is achievable, working together with the APP parties, as well as with the State of Alaska. Thank you for your leadership and your confidence in us to take on these challenges. We join you in a vision of prosperity and promise. There is much work to do and opportunities yet to discover.

Sincerely,

Rex Tillerson

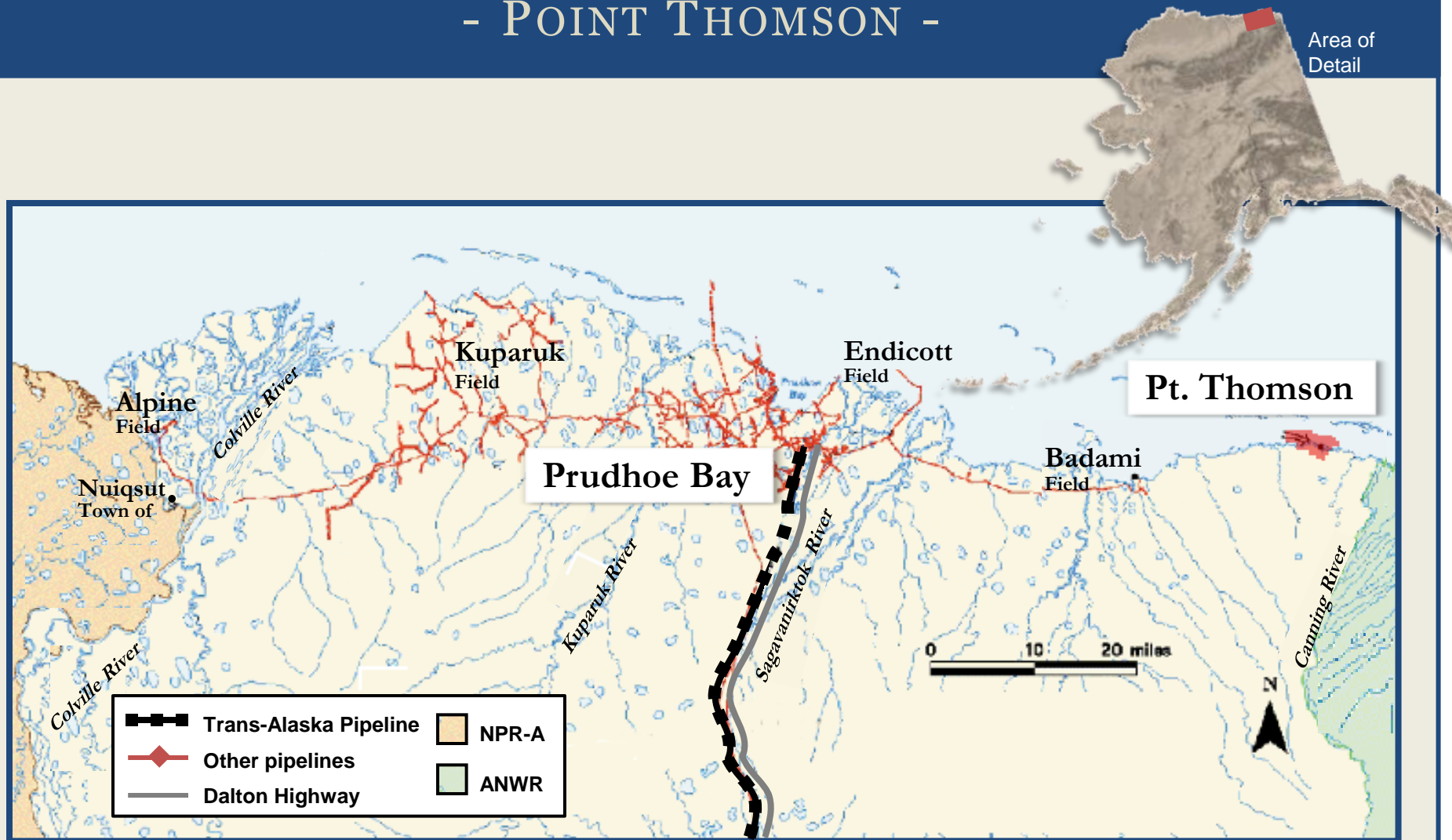
Jim Mulva

Bob Dudley

Serious discussions between our companies have taken place over the past several months, along with the Alaska Pipeline Project (APP) parties who are supporting the AGIA License. We have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework. As a result of the rapidly evolving global market, large-scale liquefied natural gas (LNG) exports from south-central Alaska will be assessed as an alternative to gas line exports through Alberta. In addition to broadening market access, a south-central Alaska LNG approach could more closely align with in-state energy demand and needs. We are now working together on the gas commercialization project concept selection, which would include an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others.

COMMERCIALIZING NORTH SLOPE GAS

- POINT THOMSON -



COMMERCIALIZING NORTH SLOPE GAS

- SIGNIFICANT PROGRESS -

- Point Thomson is a multi-billion dollar project
- Beginning construction now
- Producing Point Thomson liquid condensate into TAPS as part of Phase 1
- Big prize – gas commercialization for LNG
- Significant portion of infrastructure being built for Phase 1 is applicable to a gas line or LNG project
- Strategic investment for Alaska: opens eastern North Slope for oil and gas exploration to other companies; infrastructure in first phase is a pre-investment for gas commercialization; significant job creation—700-800, peaking at over 2,000



***“Work to establish a new oil field at Point Thomson on Alaska’s North Slope is starting to roll.*”**

ExxonMobil, operator of the Point Thomson unit, has a variety of activities under way to take advantage of the winter construction season.”

Petroleum News, January 20, 2013-

COMMERCIALIZING NORTH SLOPE GAS

- SIGNIFICANT PROGRESS -

ExxonMobil

ConocoPhillips



TransCanada

October 1, 2012

Governor Sean Parnell
550 West 7th Avenue, Suite 1790
Anchorage, Alaska 99501

Dear Governor Parnell:

On March 30, 2012, ExxonMobil, ConocoPhillips and BP are working together on the next generation of North Slope resource development. Since that time, the three producer companies and TransCanada, through its participation in the Alaska Pipeline Project (APP), have maintained momentum and executed important early work to select leading concepts for a potential project. We are writing to update you on the progress that has been made to date.

We established an integrated team, depicted on Attachment 1, consisting of over 200 professionals to date to progress this work. Each company brings its own respective talents and experience to advance a collective effort to develop liquefied natural gas (LNG) exports from Southcentral Alaska to refine and understand the opportunities and challenges of development.

Our companies bring together specific expertise in Arctic operations and in LNG plant design and operation. Since our joint work began, we have spent more than \$700 million in past work by our collective efforts. In 2001-02, the Denali Project was a major contribution through AGIA). As a result, our work on an LNG project has reached a new level of understanding. Specifically, the focus of our work is to:

- Developing a design basis for the pipeline, including areas of continuous and discontinuous permafrost
- Investigating multiple ways to remove and dispose of CO₂ and other contaminants
- Assessing use of existing and addition of new Prudhoe Bay field facilities
- Mapping multiple pipeline routing variations
- Assessing multiple pipeline sizes
- Providing for at least five in-state gas off-take points
- Completing preliminary geohazard and marine analysis of 22 LNG site locations
- Developing a design basis for the required LNG tanker fleet
- Evaluating multiple LNG process design alternatives
- Confirming a range of gas blends from the Prudhoe Bay and Point Thomson fields can generate a marketable LNG product

We have narrowed the broad range of alternative development concepts and assessed major project components, including the gas pipeline, gas treatment to remove CO₂ and other impurities, natural gas liquefaction, LNG storage, and marine terminal facilities as described on Attachment 2. Individually,

Governor Sean Parnell

- 2 -

October 1, 2012

each of these components would represent a world-class project. Combined, they result in a mega-project of unprecedented scale and challenge; up to 1.7 million tons of steel, a peak construction workforce of up to 15,000, a permanent workforce of over 1,000 in Alaska, and an estimated total cost in today's dollars of \$45 to \$65+ billion.

Additional accomplishments include TransCanada's recently completed open bidding solicitation of

On March 30, 2012, ExxonMobil, ConocoPhillips and BP submitted a letter informing you of progress in working together on the next generation of North Slope resource development. Since that time, the three producer companies and TransCanada, through its participation in the Alaska Pipeline Project (APP), have maintained momentum and executed important early work to select leading concepts for a potential project. We are writing to update you on the progress that has been made to date.

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Alaska's North Slope natural gas resources must compete in the global energy markets in order to deliver state revenues, in-state energy supplies, new job opportunities and other economic benefits to Alaskans. While North Slope gas commercialization is challenging, working together, we can maintain the momentum toward our shared vision for Alaska. We will continue to keep you advised of our progress and stand committed to work with the State to responsibly develop its considerable resources.

Sincerely,

Randy Broiles
ExxonMobil
Production Company

Trond-Erik Johansen
ConocoPhillips Alaska, Inc.

Johnny Mingé
BP Exploration Alaska

Tony Palmer
TransCanada

Attachments

COMMERCIALIZING NORTH SLOPE GAS

- SIGNIFICANT PROGRESS -

Attachment 2

Alaska Southcentral LNG – Project Concept Description

Liquefaction Plant

- Capacity: 15 – 18 million tonnes per annum (MTA)
3 trains (5-6 MTA / train)
- Potential areas: 22 sites assessed in Cook Inlet, Prince William Sound and other Southcentral sites
- Footprint: 400 - 500 acres
- Peak Workforce: 3,500 - 5,000 people
- Required Steel: 100,000-150,000 tons



Storage / Loading

- LNG Storage Tanks, Terminal
- Dock; 1 - 2 Jetties
- Design based on 15- 20 tankers
- Peak Workforce: 1,000-1,500 people



Gas Treating

- Located at North Slope or Southcentral LNG site
- Remove CO₂ and other gases and dispose / use
- Footprint: 150 - 250 acres
- Peak Workforce: 500 - 2,000 people
- Required Steel: 250,000 - 300,000 tons
- Among largest in world



Producing Fields

- ~35 TCF discovered North Slope resource
- Additional exploration potential
- Anchored by Prudhoe Bay and Pt. Thomson with ~20 years supply available
- Use of existing and new North Slope facilities
- Confirmed range of gas blends from PBU/PTU can generate marketable LNG product
- Peak Workforce: 500 – 1,500 people



Pipeline

- Large diameter: 42"- 48" operating at >2,000 psi
- Capacity: 3 - 3.5 billion cubic feet per day
- Length: ~800 miles (similar to TAPS)
- Peak Workforce: 3,500 - 5,000 people
- Required Steel: 600,000 - 1,200,000 tons
- State off-take: ~5 points, 300-350 million cubic feet per day, based on demand



Estimated Total Cost: \$45 – \$65+ Billion

Peak Construction Workforce: 9,000 – 15,000 jobs

Operations Workforce: ~1000 jobs in Alaska

Descriptions and costs are preliminary in nature and subject to change. Cost range excludes inflation.

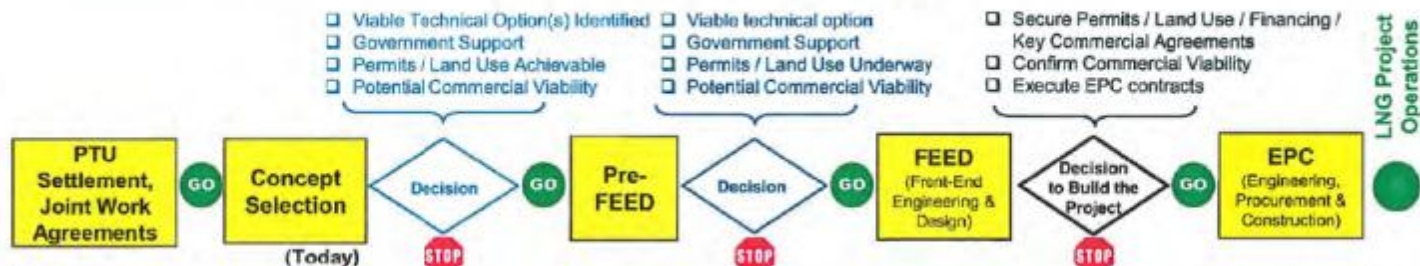
COMMERCIALIZING NORTH SLOPE GAS

- SIGNIFICANT PROGRESS -

Attachment 3

Southcentral Alaska LNG – Work Plans / Key Decision Points

Requirements to Take Next Step:



Peak Staffing:	~200	400 - 500	500 - 1,500	9,000 - 15,000
Cost (\$):	Tens of Millions	Hundreds of Millions	Billions	Tens of Billions
Est. Engineering / Technical Duration*:	12 - 18 Months		2 - 3 Years	5 - 6 Years

Activities	Evaluate:	Progress:	Complete:	Execute:
	<ul style="list-style-type: none"> Range of technically viable options for major project components Business Structure In-state gas / export LNG demand 	<ul style="list-style-type: none"> Preliminary engineering to refine concept Business structure Financing plan 	<ul style="list-style-type: none"> Front-end engineering & design Major contract preparation Business structure Financing arrangements 	<ul style="list-style-type: none"> Final engineering Financing Procurement Fabricate / Logistics / Construct Prepare for Operations
	Solicit Interest of Others			Solicit Interest of Others
	Establish Government Support and Advance Regulatory Issues: <ul style="list-style-type: none"> Competitive oil tax environment; predictable / durable LNG project fiscal terms; AGIA Issues Assure ability to secure regulatory approvals / permits / land use Environmental activities / Technical data collection Stakeholder engagement File DOE Export License 			Advance Gov't / Reg. Issues: <ul style="list-style-type: none"> Key permit / land use approvals Stakeholder engagement Secure DOE Export License
	Complete Gov't / Reg. Issues: <ul style="list-style-type: none"> Secure remaining construction / operating permits Stakeholder engagement 			
		Start individual gas / LNG sales / shipping efforts	Execute individual gas / LNG sales / shipping agreements	Implement business structure & agreements
	Screen commercial viability	Assess commercial viability	Confirm commercial viability	Commission / start-up

* NOTE: Duration of various phases may be extended by protracted resolution of fiscal terms, permitting and regulatory delays, legal challenges, changes in commodity market outlook, time to secure long-term LNG contracts, labor shortages, material & equipment availability, weather, etc.

COMMERCIALIZING NORTH SLOPE GAS

- SIGNIFICANT PROGRESS -

The companies' 3Q announcement attracted significant national and international press.

WSJ: Natural Gas Glut Pushes Export

"The long-awaited effort is expected to have a significant impact not just on Alaska and its economy, but also on U.S. construction and manufacturing companies that would supply steel and other materials for an 800-mile pipeline and the plant that would convert the gas into liquid for export on tankers." - WSJ, 10/4/12

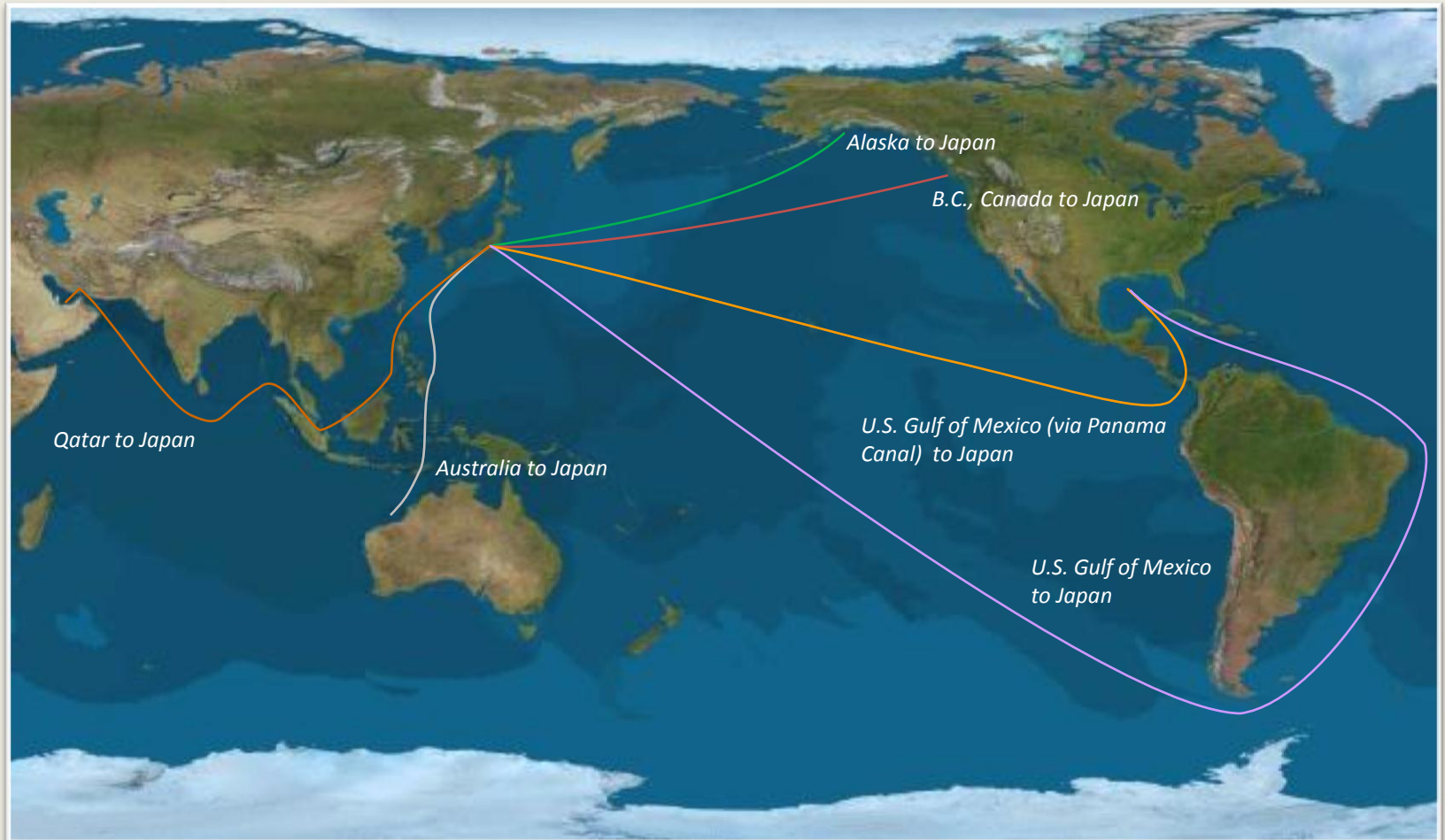
The Globe and Mail: Alaska plan intensifies gas race to Asia

"A massive new proposal to export natural gas from Alaska brings a major competitor into the race to carry North American gas to Asia, and adds pressure on Canadian export projects to build quickly or risk losing out..."

It is notable for the stature of its backers—BP PLC, Exxon Mobil Corp., ConocoPhillips Co. and TransCanada Corp., which have now joined forces after dueling for years over separate gas pipeline projects—and for its scale."

- Globe and Mail, 10/4/12

COMPARATIVE ADVANTAGES OF AK LNG



COMPARATIVE ADVANTAGES OF AK LNG

- COST COMPETITIVE: WOOD MACKENZIE STUDY & BROOKINGS INSTITUTION POLICY BRIEF -

Wood Mackenzie, the global research and consulting firm, recently completed a study for the State of Alaska to evaluate the economic competitiveness of Alaskan LNG exports relative to other projects.

- From an economic perspective Alaskan LNG exports would be competitive and could generate between \$220 and \$419 billion
- Alaskan LNG exports have a delivered cost structure *below* \$10/MMBtu
- Most competing Australian projects and proposed North American LNG exports yet to secure Final Investment Decision are expected to deliver LNG to Asia at a cost of \$10-\$12/MMBtu under current gas price assumptions
- ***Taking all into account—basis, shipping, capital requirements—Alaska LNG export facilities can deliver LNG to Asia less expensively than the U.S. Lower 48 or Canada and competitively vis-à-vis traditional Australian LNG sources.***

Alaskan LNG Exports Competitiveness Study, AGPA, Final Report, July 27, 2011

Brookings Institution, the public policy organization, recently published a policy brief that discussed the strong competitive position of a potential, large-scale Alaska LNG to Asia project.

- Alaskan exports may prove to be a source of strong competition at the margin for U.S. LNG in the Pacific Basin. An Alaska project may be one of the least costly alternatives for delivering LNG to Japan in 2020

Brookings Institution Policy Brief,
“Liquid Markets: Assessing the Case for U.S.
Exports of Liquefied Natural Gas,” May
2012

COMPARATIVE ADVANTAGES OF AK LNG

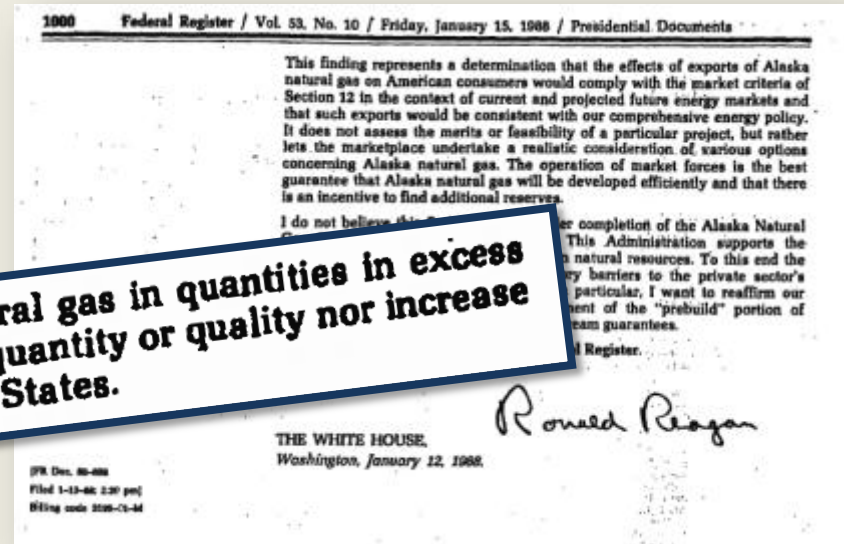
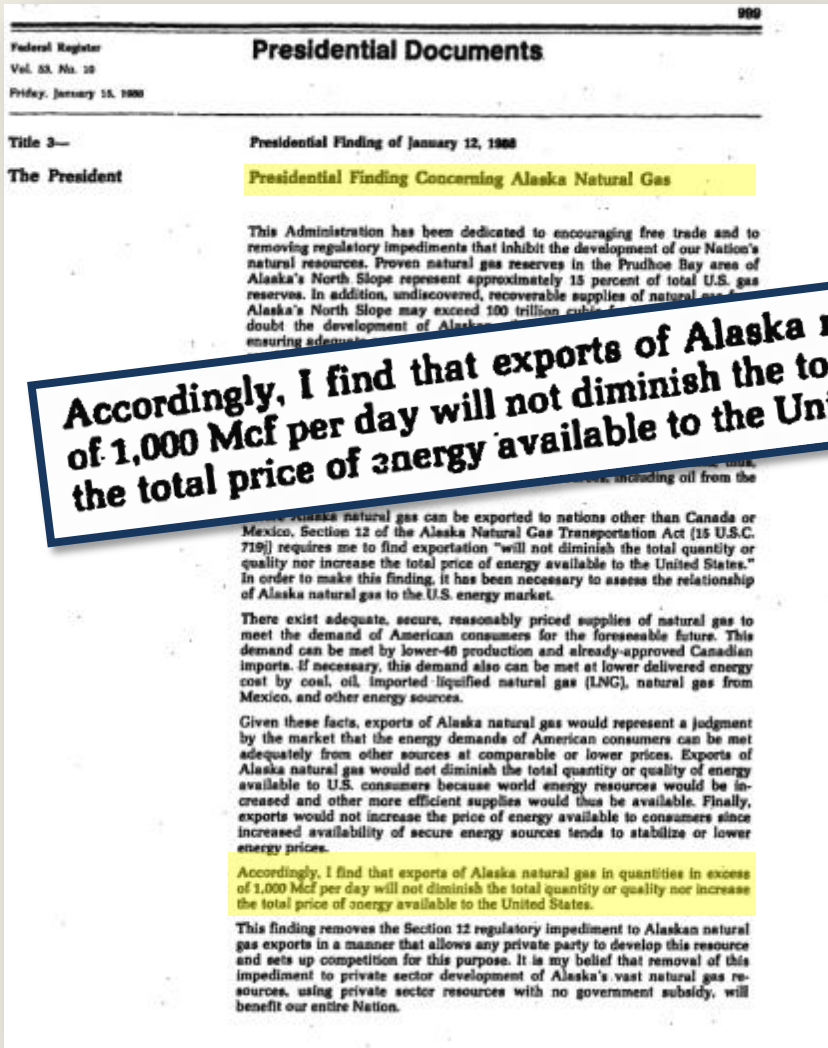
- Existing oil and gas infrastructure can be utilized for a large-scale LNG project
- The route for a large-scale LNG project would be the same or similar to the existing TAPS route, which will save on costs and have a limited impact on the environment
- Exceptional reliability. Alaska has a longstanding tradition of reliably exporting LNG to Asia—40 years of LNG exports to Japan with accompanying DOE export licenses, totaling 2.5 trillion cubic feet of gas
 - Alaska has never missed a LNG cargo shipment to Asia
- Avoids strategic shipping choke points that other sources of LNG must traverse
- No looming conflicts in the region—stable investment and political climate
- Proximity/shipping costs are very low
- Cost competitive relative to other projects
- Seasonal peaking for LNG production synchronizes with market demand in Asia
- Cold weather also brings processing efficiency
- Not part of the Lower 48 export debate/controversy—no opposition to Alaska exports



LNG tanker at the Kenai, Alaska LNG marine export terminal.
Photo from ConocoPhillips, "The Kenai LNG Plant celebrates 40 years."

COMPARATIVE ADVANTAGES OF AK LNG

- SIGNIFICANT PROGRESS ON EXPORT LICENSE AND OTHER REGULATORY MATTERS -



Presidential Finding of January 12, 1988, set a strong precedent that may still be applicable today.

PART IV



Moving Forward in 2013

OIL TAX REFORM

- PRINCIPLES & HIGHLIGHTS -

PFC Energy, January 2013:

This tax reform makes Alaska highly competitive relative to Lower-48 basins and other OECD countries (PFC Energy)

Key Principles:

- Tax reform must be fair to Alaskans
- Encourage new production
- Simple so that it restores balance to the system
- Durable for the long-term

Highlights:

1. Eliminate Progressivity and Credits Based on Capital Expenditures
2. Reform remaining credits to be carried forward to when there is production
3. Establish a “Gross Revenue Exclusion” for newer units and new participating areas in existing units (NEW OIL)

COOK INLET

- FINANCIAL & INVESTMENT INCENTIVES -

- State allows credits up to 40% of capital expenses related to wells and seismic activity
- State offers tax credits for exploration expenses of 100, 90, and 80 percent respectively for drilling the first, second, and third exploration wells by a jack-up drilling rig, up to \$25 million
- Natural gas storage tax credits are established for any natural gas storage facility—the credit equals \$1.50 per thousand cubic feet of “working gas” storage capacity, up to \$15 million
- No production tax on oil
- 18 cents/mcf
- Significant tax credits

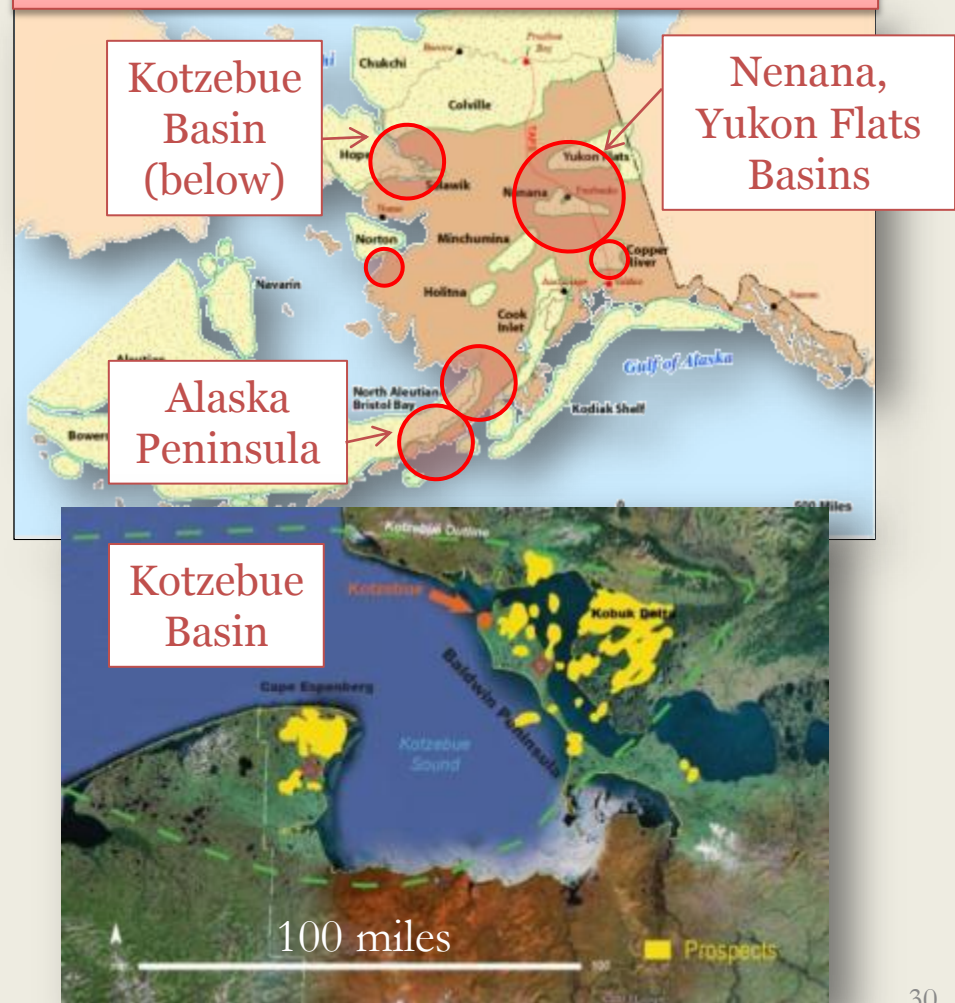


NEW FRONTIERS

- INTERIOR BASIN POTENTIAL -

- Six under-explored areas eligible for generous exploration credits, covering Alaska Peninsula, Kotzebue, Nenana, Yukon Flats, and other sedimentary basins
- Several of these basins have >20,000 feet of Tertiary and/or Cretaceous basin-fill
- Basins range in size – some larger than or comparable to the prolific Alaska Cook Inlet Basin (cumulative production >7.4 TCF), with analogous petroleum systems
- Dozens of prospects and leads
- State of Alaska and Alaska Native corporations are actively seeking investment to appraise millions of State and Fee acres:
 - Alaska Peninsula: **Booth 1358**
(Alaska Division of Oil and Gas)
 - Kotzebue Basin: **Booth 1411**
(NANA Corp./Moyes & Co.)
 - Nenana & Yukon Flats Basins: **Booth 4435**
(Doyon Corp.)

Sedimentary Basins – Frontier Tax Credits



PERMITTING REFORM

- EFFICIENT, TIMELY, CERTAIN -

State of Alaska is undertaking a comprehensive effort to improve the State's permitting processes to ensure projects are permitted in a timely, predictable and efficient manner while safeguarding the environment

- State of Alaska Currently Considering a Permitting Bill to:
 - Assume primacy from the federal government for administering permitting under the Clean Water Act for dredge and fill activities
 - Issue general permits for activities without being required to adjudicate each permit separately
 - Enable successive Temporary Water Use Authorizations to be applied for, adjudicated and issued for the same project beyond the initial five-year period of the project
 - Tightening standing requirements to appeal permitting decisions, particularly for groups that cannot demonstrate injury
- State is also working to improve coordination between the State and federal government—federal permitting issues have a strong influence on state projects

2012/2013 ARCTIC OCS SEASON

- State of Alaska very supportive of Shell operations
- State and North Slope Borough working together
 - Joint letter to DOI in regard to expedited review
- State working with the feds—good discussions with DOI panel conducting expedited review of 2012 operations
- State of Alaska has a record of standing up and defending the State's interest when the federal government overreaches their authority



CONCLUSION

- Alaska had significant investment and exploration activity in 2012
- Vast diversity of companies pursuing different plays
- One of the few places in North America where significant conventional oil plays exist alongside unconventional plays
- Tax and regulatory reform proposals demonstrate that Alaska is open for business